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SUBJECT: MONTENEGRO: ECONOMIC DEVELOPMENTS: MARCH 2006

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MACROECONOMICS:

Public Debt Up in Euros, Down as Percent of GDP

¶1. (U) Public debt rose 4.5 percent in 2005, to Euros 704.4 million. As a share of GDP, public declined from 45.7 percent in 2004 to 42.7 percent. Seventy-seven percent of the debt was inherited from the former Yugoslavia. For 2006, the Finance Ministry plans to repay Euros 151.6 million of the outstanding Euros 513.4 million in foreign debt. It repaid Euros 105.3 million in foreign debt in 2005, and about 55 million in 2004.

Industrial Production Recovers Slightly

¶2. (U) Industrial production in the first two months of 2006 was 5.2 percent higher than in the same period in 2005, an annual growth rate of 4.7 percent. Industrial production fell 1.9 percent in 2005, which the Central bank of Montenegro attributes to poor performance by non-privatized companies, especially energy and mining. The Central bank cited tourism and banking as the engines for Montenegrin economic growth.

BUSINESS and TOURISM:

Tourism Predicted to Be 51.5 Percent of Exports

¶3. (U) The independent World Trade and Tourism Council (WTTC) projects that tourism will generate 51.5 percent of Montenegro's exports in 2006, up 20 percent from last year. The annual growth in tourist receipts for the next decade

is predicted to be 10.2 percent, and for the third year in a row Montenegro's growth rate is first globally. Tourism employment is expected to grow 5 percent annually, until 25 percent of the workforce is in tourism by 2016.

Ada Bojana to be Tendered

¶4. (U) The Minister of Tourism announced that an international tender for the lease of Ada Bojana will be opened in early April, and stay open for three months. Ada Bojana is an island on the coast by Albania, and was a nudist resort in past decades. The GoM is looking to replace that with a number of four- and five-star hotels. Interest has been shown by American and western European investors.

IKEA to Purchase Products From Montenegro, But No Stores

¶5. (U) IKEA has announced that it is interested in resuming purchasing finished and semi-finished wood products from Montenegro. If the Montenegrin suppliers can meet IKEA's environmental and other standards, the contract would last at least three years. However, IKEA confirmed that they do not plan on opening any stores in Montenegro for at least several years.

PUBLIC ECONOMY:

Unemployment Rises Slightly

¶6. (U) The GoM said unemployment rose 0.2 percent, to 18.6 percent. Unemployment a year ago was 22.2 percent. Labor

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Ministry officials said that the real unemployment, calculated by international standards, was between 12 and 15 percent.

Real Wages Rise

¶7. (U) The average net monthly wage in February was Euros 230, up 12.2 percent from January. Retail prices rose 0.3 percent, and the consumer basket for a family of four rose 0.7 percent to Euros 266.

Government Offers Housing Loans

¶8. (U) The GoM has decided to offer subsidized housing loans to the public. Loans range from Euros 5,000 to Euros 30,000, with a period of 20 years and an annual interest rate of 4 percent -- monthly payments will be Euros 90 to ¶180. Banks will receive a subsidy of 2.4 percent from the Government on the loans.

T-BILLS

¶9. (U) One auction of Treasury bills, with a total face value of EUR 1.3 million, was held in February (note: data lags by one month). The average weighted annualized interest rate for the auction held in February amounted to 0.46 percent. The lowest accepted interest rate at the auctions held in February was 0.45 percent while the highest accepted interest rate was 0.49 percent. Participants at the auctions included local banks.

STOCKS

¶10. (U) The NEX20 index of the Nex Montenegro Stock Exchange ended the month of March steady, at 10,262.40. The Moste index of Montenegroberza rose 1.4 percent to 487.727 in March. The steadiness in the markets, after the sharp (400%) growth in 2005, reflects the completion of major

privatizations and a lull before the next tranche. Major components of the NEX20 include the privatized Telekom CG and Jugopetrol; major components of the Mosite include aluminum smelter KAP and vineyard Plantaze. Note: The Montenegrin exchanges are still nascent, and the level of capitalization represented is small although rising (NEX capitalization at the end of 2004 was Euros 495 million; at the end of November 2005 it was Euros 1,410 million).

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